



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF MULTIFAMILY HOUSING ASSISTANCE RESTRUCTURING

DATE: May 2, 2003
TO: PAEs and OMHAR Production Staff
FROM: Charles H. Williams, Director
SUBJECT: PAE Compensation on Properties Reentering M2M

PURPOSE

The volume of properties reentering M2M continues to increase and OMHAR needs a uniform approach to setting PAE compensation for completing the restructuring process. This guidance is intended to adopt a fee schedule that: is reasonable, based on the amount of work required of the PAE; benefits from the Portfolio Restructuring Agreement (PRA) incentives when there is an extensive amount of work required of the PAE; and can be administered consistently and effectively.

SCOPE

This guidance applies only to:

- Projects reentering M2M that are to be reassigned to the PAE that previously attempted a restructuring in M2M; or
- Projects coming off HOLD (as approved by the Deputy Director for Production or designee) or that would have been eligible for HOLD prior to implementation of the HOLD procedures in November 2002.

The compensation structure for projects reentering M2M that are assigned to a “new” PAE will be governed either by making a new asset assignment or by making “step assignments”.

GUIDING PRINCIPLES

To achieve the objectives described in the opening paragraph, this guidance was influenced by the following factors:

- The amount of administrative time invested in individual negotiations for each reentry property,
- The preference to allow PAEs to earn incentives so the reentry properties are on an equal footing with other assigned properties,

- The age of the due diligence; in particular the appraisal and PCA report,
- The mandate to not alter the requirements for the three stages of work (due diligence, underwriting, and closing) required by the PRA, thereby assuring that reentry property restructurings are of like quality with all other restructurings,
- The risk of overlooking a material need (in identifying specific needs for a negotiated fee) for the sake of a modest savings in the base fee, and by
- The percentage of the base fee already paid to the PAE.

RECOMMENDED GUIDELINES

Setting PAE compensation for reentry properties requires an understanding of when and where the prior restructuring attempt concluded, the age of the due diligence, and the amount of the PAE base fee paid previously. We do not recommend one schedule of fees for application in every reassignment; rather, these guidelines are intended to assist HQ PAE Management in determining the appropriate PAE compensation.

Terms:

Throughout this memorandum we intend these meanings for these phrases:

Due diligence component of the base fee: the first installment of the base fee, which is 30% of the total amount.

Underwriting component of the base fee: the second installment of the base fee, which is 40% of the total amount.

Closing component of the base fee: the third installment of the base fee, which is 30% of the total amount.

PAE Responsibilities:

In every reassignment of a reentry project, and in every project coming off HOLD, or that would have been eligible for HOLD prior to issuance of the HOLD procedures in November 2002, the PAE is required to fulfill all the requirements of their PRA. While the balance of this memorandum addresses the need for an updated (or new) PCA report and the appraisal, the PAE remains obligated to complete the necessary due diligence (for example, that may require reviewing later financial statements, changes in the partnership structure, updated REAC scores, property management reviews, etc.).

PAE Compensation:

- For properties reentering M2M with an appraisal that is less than 6 months old at the time of reentry, and
 - *If only the due diligence component was previously paid, the PAE is entitled to the following additional payments:*

- For reactivation fees,
 - The \$2500 reactivation fee is available for properties reentering from a prior AOTC status.
 - No reactivation fee is available for properties reentering from a prior Hold status, plus
 - The underwriting component of the base fee,
 - The closing component of the base fee, and
 - The submission and 8 and 9 month closing incentives, as outlined in the PRA.
- *If the due diligence and underwriting components were both previously paid, the PAE is entitled to the following additional payments:*
- For reactivation fees,
 - The \$2,500 reactivation fee is available for properties reentering from a prior AOTC status.
 - No reactivation fee is available for properties reentering from a prior Hold status, plus
 - The closing component of the base fee, and
 - For incentive fees,
 - The closing incentive for closing within 120 days of reassignment, as outlined in the PRA, is available for properties reentering from a prior AOTC status.
 - The submission and 8 and 9 month closing incentives, as outlined in the PRA, are available for properties reentering from a prior Hold status.¹
- *If none of the base fee was paid previously, then the PAE is entitled to the due diligence, underwriting, and closing components of the base fee, plus all the incentives, as outlined in the PRA.²*

¹ For properties coming off Hold, the incentive timeframe is calculated by taking the number of days from PAE acceptance to achieve the particular milestone, less the number of days the property was on Hold.

² In the unusual instance of the PAE having been paid the full base fee for a property reentering from a prior AOTC status, the PAE is entitled to the \$2,500 reactivation fee, the 120 day closing incentive (as outlined in the PRA), and the closing component of the base fee will be determined on a property-specific basis. If the appraisal is more than 6 months old, the PAE is also entitled to half the underwriting component of the base fee.

- For properties reentering M2M with an appraisal that is 6-12 months old at the time of reentry, and
 - *If only the due diligence component was previously paid, the PAE is entitled to the following additional payments:*
 - The underwriting component of the base fee, plus
 - The closing component of the base fee, and
 - The submission and closing incentives, as outlined in the PRA.
 - *If the due diligence and underwriting components were both previously paid, the PAE is entitled to the following additional payments:*
 - Half the underwriting component of the base fee (the PAE will be required to make calls to confirm the appraisal and the PCA report are representative of the market and of the property. If those calls lead to the PAE recommending an update to the appraisal and PCA report, HQ PAE Management may agree to a larger fee), plus
 - The closing component of the base fee, and
 - For incentive fees,
 - The closing incentive for closing within 120 days of reassignment, as outlined in the PRA, is available for properties reentering from a prior AOTC status.
 - The submission and 8 and 9 month closing incentives, as outlined in the PRA, are available for properties reentering from a prior Hold status.¹
 - *If none of the base fee was paid previously, then the PAE is entitled to the due diligence, underwriting, and closing components of the base fee, plus all the incentives, as outlined in the PRA.²*
- For properties reentering M2M with an appraisal that is 12-18 months old at the time of reentry,
 - A \$2,500 fee for updating the due diligence, plus
 - The underwriting component of the base fee (the PAE will be required to get an update to the appraisal and the PCA report), plus
 - The closing component of the base fee, and
 - The submission and closing incentives, as outlined in the PRA.
- For properties reentering M2M with an appraisal that is more than 18 months old at the time of reentry
 - The full base fee (the restructuring process must be restarted from the beginning, with new due diligence reports required), and
 - All the incentives, as outlined in the PRA.

The above guidelines are intended as just that – guidelines. Individual properties in

different markets may warrant deviation and HQ PAE Management may authorize an alternative compensation structure, as concurred in by the Production Office.

Administrative Requirements:

- For properties reentering M2M from a prior AOTC status,
 - The PAE completes a Form 2.16 “Letter from PAE to OMHAR to Request Change of Asset Status” (as revised and attached hereto), except for projects assigned as new assets (on which the PAE is entitled to the full base fee).
 - In completing the Form 2.16, the PAE must
 - Check the box for “Reentry Project”.
 - In the box under “Please explain the reason...”
 - Identify each of the remaining milestones and their projected completion date;
 - Indicate the amount of base fee paid to date;
 - State the amount of additional base fees to complete the restructuring. If individual property circumstances warrant deviating from the fee guidance in this memorandum, the PAE must provide a detailed explanation to justify the fee;
 - Include amounts needed for third party reports and travel costs, if those costs will exceed the amounts previously authorized on the Form 2.13 “Asset Payment Authorization”; and
 - Attach the “M2M Critical Dates Tracking” for the subject project.
 - The PAE obtains a “Contract Renewal Request Form” (formerly known as the 99-36) from the Property Owner and attaches it to the Form 2.16.
 - The PAE forwards the Form 2.16 and its attachments to the Relationship Manager.
 - Once the Relationship Manager and Portfolio Director have concurred, the Relationship Manager sends the original Form 2.16 and its attachments to the Asset Assignment Specialist.
 - Once approval has been obtained, the Asset Assignment Specialist will return a copy of the approved Form 2.16 to the Relationship Manager, who distributes it to the PAE.
 - A copy of the Form 2.16, executed by the PAE, RM, PD, and initialed by HQ PAE Management, must be attached to each invoice for the relevant fees.
 - A Form 2.16 “Letter from PAE to OMHAR to Request Change of Asset Status” (as revised and attached hereto) is not required for projects

assigned as new assets (on which the PAE is entitled to the full base fee).

- For properties reentering from a prior Hold status,
 - The PAE completes a Form 2.17 “Mark-to-Market PAE PRA Hold Request.”³
 - The PAE must attach a Form 2.15 OMHAR Waiver, if the amounts previously authorized on the Form 2.13 “Asset Payment Authorization” for PAE base fees, third party reports, or travel costs need to be increased.
 - The PAE forwards the Form 2.17, and the Form 2.15 if required, to the Relationship Manager.
 - Once the Relationship Manager and Portfolio Director have concurred, the Relationship Manager sends the original Form 2.17 and the Form 2.15, if required, to Field Liaison, Attention Norman Dailey.
 - Once approval has been obtained, the Field Liaison will return a copy of the approved Form 2.17 (and any attached Form 2.15) to the Relationship Manager, who distributes it to the PAE.

CONTACT

Questions about this guidance should be directed to:

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³ The procedures for recommending that properties come off Hold are detailed in OMHAR's broadcast of April 7, 2003, titled “Revised Hold Procedures.”

ATTACH REVISED FORM 2.16 HERE



"Form 2-16 revised
(v4).xls"